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SUBJECT: ROMANIA: AGRICULTURAL REFORM LAGGING AFTER EU ACCESSION

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¶1. (SBU) SUMMARY: Romania's agricultural sector continues to struggle with the Communist legacy of collectivized farm land. Despite Romania's huge agricultural potential, its small farm size and lack of education in modern agricultural methods has left the agricultural sector as a chronic underperformer. Political leaders, including new Minister of Agriculture Ilie Sarbu, have consistently vowed to make agricultural reform a priority, including access to and use of EU funding. Given the magnitude of the challenge, however, it is unlikely that the Government of Romania (GOR) will be able to stimulate major progress in the agricultural sector in the near term. END SUMMARY.

BIG AGRICULTURAL POTENTIAL VS. STARK REALITY

¶2. (U) According to a recent study from Banca Comerciala Romania (BCR), Romania's arable land for agricultural purposes is 39.5 percent of its total area, which places Romania sixth in the world in terms of the percentage of its total area that is potentially arable land. Within Europe, this amount of arable land as a percentage of total area puts Romania just behind France and Germany in terms of potential.

¶3. (U) While most agricultural lands have been restituted to their previous owners, this process has not been finalized 18 years after the fall of Communism. Much of the restituted farm land still needs to be properly surveyed and measured in order to be registered and titled to a new owner. Progress on efforts to register lands has been slow to date. The lack of proper land titles hampers owners, banks and potential leasers from undertaking activity or investment on the land.

¶4. (U) The average Romanian farm size is approximately 3.12 hectares (7.7 acres), far behind the EU 27 average of 11.5 hectares (28.4 acres). Of the 4.2 million agricultural property holdings, 99.6 percent are individual agricultural holdings. Eighty percent of all farms can be classified as subsistence holdings, while 45 percent of all farms are even smaller than one hectare (2.47 acres) and therefore not eligible for EU CAP funding. More than 81 percent of individual agricultural holdings use more than 50 percent of their own production for self consumption. Companies represent less than one percent of the Romanian agricultural holdings. The average size of company holdings is about 263 hectares (650 acres). Within the EU, Romania has the highest imbalance of any state between the number of holdings and arable area per holding.

¶5. (U) In terms of agricultural employment, officially less than three percent of Romanians are employed in agricultural jobs on company payrolls. However, actual employment in agriculture is over 30 percent of the workforce, since in rural Romania over one third of household income is derived from agriculture for self consumption. Some 40 percent of Romanians still live in the

countryside, the highest rate in the EU.

¶6. (U) While Romania possesses a cadre of agricultural university-educated experts, they are not representative of the majority of farmers in Romania, who have little formal education or knowledge of modern, efficient farm production techniques. Farming on small-size plots is typically non-mechanized, which contributes to low yields and to overall low quality of produce which is not commercially competitive for export, or even for sale within the Romanian domestic market. This is true particularly among urban shoppers, who will gladly pay for better-quality imported produce than the frequently wilted, bruised, or blemished local variety, even if the latter is noticeably cheaper.

EU AND GOR EFFORTS AT REFORM: WHERE TO START?

¶7. (SBU) Experts believe Romania could potentially double its agricultural production if it could systematically access and use EU funding and external co-financing. The impact on economic growth for the country of a more robust agricultural sector would be huge, given the high proportion of the population engaged in farming. But the present reality is daunting. For the years 2007 to 2013, Romania has eight billion euros potentially available from the EU for agricultural projects. Unfortunately, accessing these funds remains an obstacle; in 2007, the agricultural sector was Romania's lowest performer in terms of absorption of EU funds. Of the 740 million euros earmarked for Romania's agricultural sector in 2007, Romania absorbed only 10 million euros, less than one percent of funds available. While the 2008 absorption rate of EU funds is expected to be higher, big disparities between what is available and what is accessed will persist.

¶8. (U) Even with a higher absorption rate, farmers' groups are

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reporting that some of these projects are already in jeopardy and may be lost because farmers can not access adequate credit to make the necessary investments and co-payments required by the EU funding structure. Unfortunately, due to the historical experience with forced collectivization, Romanian farmers remain adverse to modern collective farming ideas, even though these would increase their cost effectiveness and attract outside investments.

¶9. (U) Since Romania joined the EU, the Ministry of Agriculture has piloted an annuity program for subsistence and semi-subsistence farmers to encourage an increase in the size of land holdings. This program allows individuals over age 62, who own less than 10 hectares (24.7 acres), to rent their land out for 50 euros per hectare per year, or 100 euros per year if they agree eventually to sell the land. Approximately 54,000 people have taken advantage of this program to date, leading to a slight increase in the average farm size to 3.12 hectares (7.7 acres) from 2.1 hectares (5.2 acres). Despite these efforts, Romania still has only 10,000 farms of over 1,000 hectares, but 1.2 million over one hectare.

¶10. (SBU) The new Minister of Agriculture, Ilie Sarbu of the PSD, was appointed in December 2008. Sarbu previously served as Minister from 2001 to 2004, and he initiated several programs to modernize and develop Romania's agricultural sector during his tenure. Sarbu has said his top priority is to capitalize on available EU funding structures (a declaration similar to that of his predecessor). Labeling Romanian agriculture a "disaster," Sarbu has called for significant changes in the Ministry's bloated and inefficient staffing. Accessing more funds isn't the only problem; Romania has been unable to use all the funds already received. After Sarbu's early inquiries into the status of EU fund disbursement, the director of the Romanian Agency of Payments and Intervention in Agriculture (APIA) resigned. Additionally, 44 APIA workers are under investigation for fraud and corruption after allotting over one million euros to 52 localities based on forged documents. Recent press reports indicate that while the GOR converted EU funding from euros to lei, it never fully disbursed the monies and therefore incurred a huge loss in value as the leu depreciated significantly in late 2008. The GOR is currently awaiting direction from the EU to determine what funding must be returned and what financial penalties Romania will incur.

¶11. (SBU) COMMENT: No sector of the Romanian economy offers greater potential for growth, while presenting government leaders with bigger challenges, than does agriculture. Once known as the breadbasket of southeastern Europe, Romania today is a net food importer by a wide margin. As Minister Sarbu has pointed out, agriculture's share of GDP has declined from 12 percent in 2004 to seven percent today, and current annual production in categories like meat and dairy products is below even Communist-era levels. Achieving greater efficiencies through increasing the size of land holdings, coupled with investments and improvements in technique, is vital to realize Romania's full agricultural potential. Building capacity to access and use EU funds is a necessary first step. Minister Sarbu has vowed progress, but will find -- as did his predecessors -- that only a sustained, massive political effort will drag Romania's agricultural sector into the 21st century. End Comment.

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